

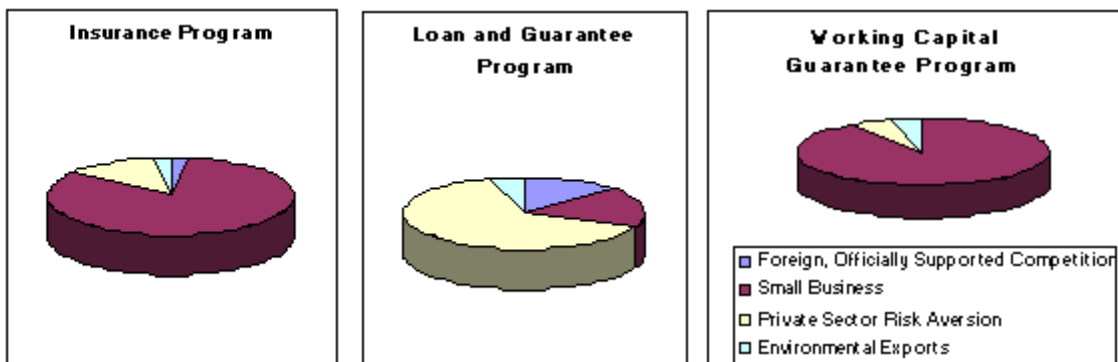
GOAL ONE: MAKING A DIFFERENCE FOR U.S. EXPORTERS

Making a difference for U.S. exporters is the first goal outlined in Ex-Im Bank's FY99 Annual Performance Plan. Ex-Im Bank designs programs and directs resources to support export sales that are "additional." "Additionality" refers to the likelihood that an export transaction will not go forward unless Ex-Im Bank provides support. The two primary considerations in determining additionality are: 1) the existence of foreign officially supported export credit competition; and 2) the perception of high risk, generally indicated by the absence of private sector financing available at non-prohibitive terms and prices.

Ex-Im Bank has identified four specific objectives as a function of the circumstances in which Ex-Im Bank support could **make a difference**. These objectives are as follows: 1) to neutralize foreign, officially supported competition; 2) to fill financing gaps for creditworthy buyers whose access to private market financing in amounts or on terms adequate to the needs of the transaction are artificially constrained; 3) to develop innovative financing programs to facilitate a major increase in Ex-Im Bank's support for small- and medium-sized companies that are engaged in export activity; and 4) to develop programs and policies which enhance accessibility to financing for environmental exporters.

In theory, every transaction Ex-Im Bank supports should fall into one of the four reasons for Ex-Im Bank support, and thus all of Ex-Im Bank's support could be additional. In reality, transactions do not clearly fit into categories and it is unlikely that every transaction Ex-Im Bank supports is 100% additional; that is certain to be lost without Ex-Im Bank support.

Below are three charts that illustrate the differences in reason for Ex-Im Bank support between product offerings. For example, the Working Capital program focuses on small business transactions, while competition is most significant for the Loan and Guarantee products.



Objective One: Neutralize foreign, officially supported competition.

Loan and Guarantee Program

○ Measurable Results

In FY99, a total number of 208 transactions were authorized under Ex-Im Bank's medium- and long-term loan and guarantee programs. Of this figure, a total of 38 cases, or 18%, faced confirmed foreign, officially supported export credit competition. The aggregate dollar value of these 38 cases is \$6.3 billion¹. As Ex-Im Bank designs its programs to be competitive, we annually assess our competitive situation. Ex-Im Bank also works to maintain its competitive edge and to ensure that deals are not lost to competitor ECAs offering official terms by regularly asking its competitors the terms of their offers made under unusual circumstances and by standing ready to match terms. The purpose of collecting this information is to determine whether or not Ex-Im Bank is filling a need and matching the competition, but unfortunately, the data on this issue is neither accurate nor comprehensive. As such, the poor integrity of Ex-Im Bank's available data on this topic precludes the formation of any conclusions. As Ex-Im Bank's management is aware of the poor quality of the data available on this subject, it is currently working to determine a methodology that would capture and generate higher caliber information.

It is important to note that all transactions supporting the export of aircraft fall into the category of medium and long-term lending. Given that currently almost all large commercial aircraft exports originate from either Boeing or Airbus, most of Ex-Im Bank's large aircraft cases face very competitive sales campaigns in which the European ECAs readily support Airbus aircraft. Thanks in part to Ex-Im Bank's successful efforts to impress upon the market its willingness to keep Boeing aircraft competitive with European ECA supported Airbus aircraft, Ex-Im Bank is unaware of any aircraft cases lost due to a lack of Ex-Im Bank competitiveness. Nonetheless, Ex-Im Bank has collected information from Boeing and Airbus ECAs that suggests there are areas that are worthy of attention to improve Ex-Im Bank's competitiveness in the aircraft sector. Specifically, Ex-Im Bank is currently competitively disadvantaged vis-à-vis the Airbus ECAs as they participate in "mismatch loan structures" and support a wider variety of airlines in a more diverse number of countries of various credit quality than Ex-Im Bank currently does. The specific steps Ex-Im Bank is taking to address these gaps in financing are addressed further in the FY00 and FY01 Annual Performance Plans.

¹ All figures in this report have been rounded to the nearest million.

Insurance Program

○ Measurable Results

In FY99, Ex-Im Bank issued 215 policies under its medium-term insurance program; the total authorized amount of these cases totaled \$590 million. Of these 215 policies, ECA competition was a factor in 35, or 8%. The total authorized amount of these 35 cases, approximately \$89 million, was 15% of the total dollar amount authorized.

In FY99, Ex-Im Bank lost two medium-term insurance cases to foreign competition. The aggregate dollar amount of those lost cases was \$552,000. While Ex-Im Bank's data on why these cases were lost is incomplete, staff has determined that one case was lost because Ex-Im Bank was unable to accommodate the structure of the proposed deal.

These figures suggest that foreign competition does not currently appear to be the driving factor in the majority of medium-term insurance business. This is probably due to the competitiveness of Ex-Im Bank's medium-term insurance product. In comparison with the insurance products offered by the majority of Ex-Im Bank's competitors belonging to the Organization for Economic Cooperation and Development (OECD), Ex-Im Bank's medium-term insurance product tends to have a higher rate of cover and therefore offers more protection to the policyholders.

○ Lessons Learned

The data presented in this report is not reflective of the entire insurance book of business of FY99, as the relevant data only started being tracked approximately halfway through FY99. In the past, data was informally collected; this was the first year where Ex-Im Bank comprehensively measured definitive outcomes. To obtain these outcomes, information was compiled using new reporting methods, and the extent of the information obtained reflects the learning curve associated with managing these new methods of data collection. Simultaneous with the introduction of these new data collection methods, the Insurance Division underwent an overhaul of their existing data collection processes, an occurrence that created new data collection problems even as it resolved many others. The insurance division has created an action plan to solve these problems (i.e., phasing out obsolete and ambiguous case type computer identification codes and introducing more appropriate ones, automating several common manual applications, etc.) and anticipates the data collection process will be comprehensive in FY00.

Objective Two: Fill financing gaps for creditworthy buyers whose access to private market financing in amounts or on terms adequate to the needs of the transaction are artificially constrained.

Loan and Guarantee Program

○ Measurable Results

In FY99, Ex-Im Bank staff saw buyers return to Ex-Im Bank that had not utilized the Bank's medium- and long-term lending programs for several years. As Ex-Im Bank is the lender of last resort, the fact that many entities were forced to return to Ex-Im Bank after having been able to successfully tap into private sector financing indicated to staff that the Asian financial crisis had greatly diminished the private sector's willingness and ability to assume risk. These market conditions are clearly reflected in a comparison of FY99 and FY98 data; total authorizations under the medium- and long-term loans and guarantees totaled \$8.8 billion, an increase of \$2.9 billion over the previous fiscal year. Clearly, Ex-Im Bank's medium- and long-term programs proved to be invaluable sources of funding for those buyers shut out of a risk-averse private market.

For example, FY99 saw several airlines that have historically not availed themselves of Ex-Im Bank benefit from Ex-Im Bank support. These airlines, including EVA Airlines, China Airlines, Japan Airlines, and Thai Airways, came to Ex-Im Bank as the Asian crisis and certain tax changes in Japan, the US, and Germany resulted in a contraction of the availability of private sector financing for aircraft transactions.

The timing of this contraction in the availability of aircraft finance from the private sector coincided with the largest number of aircraft deliveries ever by the US large commercial aircraft manufacturing industry. As a result, Ex-Im Bank rose to the challenge and supported a record number and dollar amount of aircraft exports during FY99, 122 aircraft representing approximately \$7 billion in US exports. For example, due to private sector capacity constraints and the then existing low oil prices, Ex-Im Bank supported the export of 35 large commercial jet aircraft to Saudi Arabian Airlines in Ex-Im Bank's largest transaction in its 65 year history (\$1.9 billion). In addition, to enable Ex-Im Bank to continue to support aircraft exports into Korea and Indonesia during the Asian economic crisis, Ex-Im Bank used creative financing structures that combined an asset based financing structure with a sovereign guarantee in supporting aircraft exports to Korean Airlines and P.T. Garuda Indonesia, thereby improving the creditworthiness of these transactions. Finally, because the private commercial markets were unable or unwilling to provide a Chilean airline with the same financing terms that the European ECAs were offering with respect to Airbus aircraft, Ex-Im Bank financed an aircraft for Lan Chile using its recently created Stretched Overall Amortization Repayment (SOAR) structure that provided the airline with the 15 year debt economics without extending the term of the Ex-Im Bank supported loan.

Insurance Program

- Initiatives

Ex-Im Bank's data demonstrates that in FY99, Ex-Im Bank supported many creditworthy buyers who were unable to obtain the financial support they needed from the private sector due to high private sector risk aversion. Ex-Im Bank prices its short-term insurance products higher than those offered in the private sector so as to avoid competing with the private sector. It is therefore in a buyer's best financial interest to choose private sector financing over Ex-Im Bank financing if available. Should Ex-Im Bank financing be chosen, it is generally safe to assume that the applicant was unable to procure adequate financing through the private sector due to private sector risk aversion and was forced to use Ex-Im Bank instead.

In FY99, Ex-Im Bank introduced several programs designed to increase the risk assumed by Ex-Im Bank while filling in private sector financing gaps. In response to the Asia Crisis, Ex-Im Bank tailored special insurance products for Thailand, Indonesia and Korea in response to the rapid contraction of private sector participants so as to ensure that US exports continued to flow to these critical markets. Ultimately, the Thailand program did not materialize due to problems stemming from the Thai Constitution. Moreover, the activity under the \$1 billion short-term Indonesia program has been constrained due to high cash collateral requirements in Indonesia and concerns over the quality of the Indonesian banks operating the program. However, the \$1 billion short-term Korea program has been hugely successful. This effort yielded approximately \$1.2 billion of US exports. As conditions in Korea have improved, Ex-Im Bank has seen less activity under this program as the private sector has begun to again take private risk independently, without Ex-Im Bank's support.

Two other initiatives from FY99 that were developed in response to emerging needs for gap filling were as follows. In Central America, Ex-Im Bank developed a \$50 million medium-term bank-to-bank insurance product with the Central American Development Bank (CABEI), to facilitate exports of capital goods used primarily for the rebuilding of injured markets destroyed by Hurricane Mitch. This program was introduced in April 1999. Ex-Im Bank also developed and introduced the Africa Pilot Program. This pilot, implemented in August 1999, was designed to undertake short-term transactions in markets where Ex-Im is otherwise not open for business (off-cover) due to economic reasons. Should this program prove to be successful, it is expected to serve as the model by which Ex-Im Bank will evaluate the potential of expanding its insurance program into other "off-cover" markets.

- Measurable Results

In FY99, private sector financing was unavailable in 200 of the 215 issued medium-term insurance policies, or in 93% of approved medium-term policies.

The total authorization amount of these 200 cases was close to \$350 million, or about 60% of the total dollar amount of medium-term authorizations.

Under its short-term insurance program, Ex-Im Bank authorized about 1300 multi-buyer policies in FY99. At this time, the insurance division's data collection processes do not specify why applicants under the short-term, multi-buyer program chose Ex-Im Bank financing over other alternatives, but since Ex-Im Bank prices its cover appreciably higher than the private sector, a lack of available financing is highly likely.

Objective Three: Develop innovative financing programs to facilitate a major increase in Ex-Im Bank's support for small and medium sized companies that are engaged in export activity.

Loan and Guarantee Program

- Measurable Results

In FY99, there were 55 authorizations under the medium- and long-term loan and guarantee programs, not including credit guarantee facilities, which supported small businesses. Of the 55 authorized cases, the aggregate dollar authorization that supported small businesses totaled \$138 million. In FY98, there were 60 authorizations under these programs that supported small businesses, and the amounts of these cases that benefited small businesses totaled \$175 million.

It is important to note that Ex-Im Bank's current data systems do not capture the sub-suppliers supported by its medium- and long-term loan and guarantee programs. According to such major US exporters as Boeing and Lucent, sub-suppliers play pivotal roles in many Ex-Im Bank medium- and long-term loan and guarantee transactions. As such, there are large numbers of small businesses that are indirectly reaping the benefits of Ex-Im Bank support and are not included in the small business figure. To address this deficiency, Ex-Im Bank has begun to modify its data management processes so as to begin collecting this information.

Insurance Program

- Measurable Results

In FY99, there were 215 policies issued under the medium-term, single buyer insurance program; 70 of these policies, or 33%, were issued to small businesses. The aggregate dollar figure for all authorized medium-term single buyer insurance policies was \$590 million, about 15% of which was authorized for small businesses. In FY98, there were 224 policies issued under the medium-term, single buyer insurance program, and 205 of these policies, or 92%, were issued to small businesses. The aggregate dollar figure for all authorized

medium-term single buyer insurance policies in FY98 was over \$800 million, and about 30% of this dollar amount was authorized for small businesses.

Under the short-term insurance single and multi-buyer programs, approximately 1400 policies were authorized in FY99. Ninety-one percent of these policies were issued to small businesses. The total dollar figure for all authorized short-term insurance single and multi-buyer programs was \$3.1 billion. Of this amount, more than 30% of total dollar authorizations were to small businesses. This data is very similar to that of FY98; in FY98, 1400 policies were authorized under the short-term insurance single and multi-buyer programs. Again, ninety-one percent of these policies were issued to small businesses. The total dollar figure for all authorized short-term insurance single and multi-buyer programs was \$3.5 billion. Of this amount, approximately 40% of total dollar authorizations were to small businesses.

These numbers speak to Ex-Im Bank's success in fulfilling its legislatively mandated obligation to support transactions for small businesses. With over 80% of all insurance policies authorized in FY99 issued to small businesses, Ex-Im Bank's Insurance Program is obviously a lynchpin in Ex-Im Bank's efforts to support small business exporters.

Ex-Im Bank is working steadily towards its goal of issuing 3000 insurance policies by the end of 2000. As of this writing, there are almost 2,300 active policies, and this figure is expected to grow. However, the extent of such growth depends on changing market conditions that could preclude the achievement of this ambitious goal in 2000.

Working Capital Guarantee Program

- Initiatives

The US Division is responsible for Ex-Im Bank's Working Capital Guarantee (WCG) Program. Working capital loans guaranteed by Ex-Im Bank help US exporters purchase finished products for export, pay for the raw materials, labor and overhead required to produce goods for export, and cover standby letters of credit.

Ex-Im Bank is steadily progressing towards its stated goal of providing \$1 billion in WCG support by the end of 2000. While staff feels this goal may be somewhat optimistic and that it requires re-evaluation, the US Division has begun, with the assistance of Ex-Im Bank's Business Development Division and the Private Export Funding Corporation, to aggressively target asset based lenders, community lenders, minority owned businesses, small business exporters, and rural and economically underserved markets, to meet this goal. To that end, FY99 saw the introduction of the US Division's Underserved Markets Pilot Program. This effort targets small exporters that are minority or women-owned,

located in an economically depressed urban or rural area, or have an environmental focus.

In FY99, Ex-Im Bank increased the amount of working capital available through the expansion of the Delegated Authority Lender Program. Delegated authority is a special partnership that allows qualified lenders to commit Ex-Im Bank's guarantee under the Working Capital Guarantee Program without prior approval from Ex-Im Bank. Delegated authority leverages Ex-Im Bank scarce resources by tapping into existing private sector expertise, thus improving overall customer service. Furthermore, delegated authority speeds up the application and approval processes, helping to make businesses more competitive; average turnaround time for a WCG not submitted under delegated authority is between 2-6 weeks, but WCG's submitted under this program are usually completed within 5 business days. Ex-Im Bank currently has 90 delegated authority lenders with 144 affiliates involved in the WCG Program. Ex-Im Bank granted new "Super" delegated authority to 12 large asset-based lenders, providing delegated authority limits of \$10 million per transaction/per borrower and \$150 million aggregate so as to improve customer service/case turnaround time. Ex-Im Bank also created a Community Level of delegated authority for community banks and similarly sized non-bank lenders, providing delegated authority limits of \$1 million per transaction/per borrower and \$10 million aggregate.

Ex-Im Bank has also undertaken several internal initiatives designed to increase the WCG program's attractiveness to existing and potential customers. Ex-Im Bank has introduced powerful program changes, such as new documentation, streamlined reporting requirements and clarified lender obligations. Ex-Im Bank overhauled the instructions for the WCG Program into a new, comprehensive manual for program users. A new two-tier facility fee schedule was implemented that charges a lower fee for less risky WCG transactions.

- Measurable Results

In FY99, Ex-Im Bank authorized \$416 million in working capital guarantees, a 7% increase from FY98. This amount supported \$2.2 billion in exports, as compared to \$1.9 billion in FY98.

An examination of the data regarding the US Division's support of small businesses demonstrates that, like the Insurance Division, the US division has been extremely successful in its efforts to assist small businesses: 95% of WCG's issued in FY99, or 312 cases, supported small businesses. This figure represents a 20% increase from FY98.

Next Steps

Included in the Annual Performance Plan for 1999 were Ex-Im Bank's plans to develop a comprehensive survey of small business exporters' financing patterns and unfilled financing needs. Ex-Im Bank worked with the Census Department for approximately six months to design this survey. However, it was subsequently determined that the cost of pursuing this survey with Census exceeded Ex-Im Bank's budgetary resources, and Ex-Im Bank was therefore obligated to end the project. Nevertheless, Ex-Im Bank remains committed to creating this survey and is examining alternative, more cost efficient means to do so.

Objective Four: Develop programs and policies that enhance accessibility to financing for environmental exporters.

In response to the 1992 charter renewal, Ex-Im Bank embarked the next year on a process to establish environmental guidelines. This was completed in 1994, and the overall results have been very positive. From 1996 through 1999, the Bank has supported over \$1.3 billion in environmentally beneficial transactions.

Initiative

Ex-Im Bank continued to offer specialized environmental programs to entice buyers into selecting US suppliers for environmentally beneficial projects.

Loan and Guarantee Program

○ Measurable Results

In FY99, there were a total of 14 environmentally beneficial transactions authorized under Ex-Im Bank's medium and long-term lending programs totaling \$168 million. This represents 2% of all cases authorized under these programs. However, in FY98, there were 11 environmentally beneficial transactions authorized under Ex-Im Bank's medium and long-term lending programs, totaling \$163 million. This represented approximately 3% of all cases authorized under these programs in FY98.

Insurance Program

In FY99, there were a total of 36 insurance policies issued (under all insurance programs) that supported environmental exports. The total authorized amount of these policies is just over \$17 million. Therefore, approximately 2% of all policies issued and 1/2% of total authorizations in FY99 supported environmental exports.

However, in FY98, there were a total of 28 insurance policies issued (under all insurance programs) that supported environmental exports. The total authorized amount of these policies is over \$22 million. Therefore, approximately 2% of all

policies issued and 1/2% of total authorizations in FY98 supported environmental exports.

This data is not representative of all the insurance policies that supported environmental exports not only for the reasons mentioned at the beginning of this paper, but also because the data feedback on insurance policies issued in favor of banks does not currently capture information on all the exports and exporters these policies support.

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Working Capital Guarantee Program

In FY99, Ex-Im Bank approved 15 WCGs that benefited the environment. This figure represents 5% of all transactions approved under the WCG Program. This approval rate is an increase over FY98, when Ex-Im Bank approved only 14 environmentally beneficial transactions under the WCG program. Especially in light of its new marketing efforts, Ex-Im Bank expects this increasing trend to continue.